



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	SB0157	Title:	Generally revise tax reappraisal laws
Primary Sponsor:	Tutvedt, Bruce	Status:	As Introduced

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|------------------------------------------------------------------|------------------------------------------------------------------|----------------------------------------------------------|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$221,009	\$1,309,592	\$2,159,514	\$2,189,988
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$11,499,500	\$9,841,500	\$7,661,500	\$5,494,500
State Special Revenue	\$721,335	\$605,335	\$480,335	\$324,335
Net Impact-General Fund Balance:	<u>\$11,278,491</u>	<u>\$8,531,908</u>	<u>\$5,501,986</u>	<u>\$3,304,512</u>

Description of fiscal impact: SB 157 revises property tax laws by creating a class 17 for commercial land and improvements; changes the reappraisal cycle from a six-year cycle to a two-year cycle; adjusts the rates at which the market value of property is taxed to maintain taxable value neutrality between residential, agricultural, and commercial properties on a statewide basis; and revises the property tax assistance programs to allow for more incremental assistance based on income. Taxable value changes create a guaranteed tax base aid (GTB) savings and a retirement GTB cost beginning in FY 2016. This bill is effective on passage and approval and applies retroactively to TY 2015.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- Under current law, the increase in reappraisal value for class 3 agricultural land, class 4 residential and commercial real property, and class 10 forestland is phased-in over six years. However, if a property

decreased in value, the new value would be phased in immediately. For each year over the six years, the homestead exemption for class 4 residential real properties would remain at 47% and the comstead exemption for class 4 commercial properties would remain at 21.5%. The tax rate for classes 3 and 4 would be 2.47%, and the tax rate for class 10 would be 0.29%.

2. The change in value for agricultural land is predominantly determined by the changes in commodity prices used to determine productivity value for the land.
3. Timber land productivity is determined by the University of Montana, College of Forestry and Conservation, with input from the timber industry.
4. The value for residential and commercial properties is determined using valuation sales, cost, or income approach methods. A final market value is then determined based on the most appropriate of the three valuation methods.
5. The following table summarizes some relevant information about the changes in value on a statewide basis for the different types of property over the six-year cycle.

Type of Property	Estimated Change in Value
Residential	-2.85%
Commercial	2.45%
Agricultural	16.72%
Forestland	-50.22%

6. The bill changes the tax rate for agricultural land (class 3) from 2.47% to 2.16%.
7. Under current law, for the majority of (class 4) residential properties, the rate used to determine taxable value is equal to the statutory rate times one minus the homestead exemption percentage, or 1.31% ($2.47\% \times (100\% - 47\%)$). The exemption does not apply to a single-family dwelling worth more than \$1.5 million. For these higher value properties, the rate is equal to 2.47% for the value above \$1.5 million.
8. SB 157 eliminates the homestead exemption and changes the rate from 2.47% to 1.35% for all residential property value, except the value of single-family dwellings over \$1.5 million. For the higher value properties the rate is 2.17%.
9. SB 157 moves properties previously classified as class 4 commercial to a new class 17. Under current law, the rate used to calculate taxable value for commercial property is equal to the statutory rate multiplied by one minus the comstead exemption, 1.94% ($2.47\% \times (199\% - 21.5\%)$).
10. SB 157 eliminates the comstead exemption and changes the rate to 1.9%.
11. SB 157 changes the rate used to determine taxable value for forestland from 0.29% to 0.59%.
12. Under current law, the market value for property that increased in value between 2008 and 2014 will be phased in by one-sixth increments over the reappraisal cycle ending in 2020. However, if property values decrease, then the decreased market value is applied immediately in the first year of the cycle. SB 157 proposes to phase in all changes in value immediately, both positive and negative, and move to a two-year reappraisal cycle.
13. The table below shows the estimated proportion of properties in each tax class that have increased, decreased, and stayed the same.

Type of Property	Proportion of Property			Total
	Increased in value	Decreased in Value	No Change	
Residential (Class4)	51.24%	48.42%	0.34%	100.00%
Commercial (New Class 17)	51.25%	48.02%	0.73%	100.00%
Agricultural (Class 3)	27.64%	72.36%	0.00%	100.00%
Forestland (Class 10)	100.00%	0.00%	0.00%	100.00%

14. Estimated changes from HJR 2 and Office of Budget and Program Planning for the different types of property were applied to the estimates to project taxable value. The following table shows the estimated current law taxable value, estimated SB 157 taxable value, and the change in taxable value as a result of SB 157, in millions of dollars.

Taxable Value of Property Subject to Cyclical Reappraisal by Class and Fiscal Year under Current Law and SB 157 as Introduced					
Current Law					
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Agricultural	143.897	135.961	147.205	159.124	171.753
Residential	1,168.360	1,077.071	1,129.498	1,184.676	1,242.662
Commercial	350.605	331.537	350.019	369.432	389.820
Timber	6.252	3.112	3.082	3.051	3.021
Total	1,669.114	1,547.681	1,629.804	1,716.283	1,807.256
SB 157 as Introduced					
Agricultural	143.897	143.681	149.338	155.217	161.328
Residential	1,168.360	1,166.847	1,210.598	1,256.303	1,303.967
Commercial	350.605	351.984	365.509	379.554	394.139
Timber	6.252	6.332	6.269	6.207	6.146
Total	1,669.114	1,668.844	1,731.715	1,797.282	1,865.580
Change					
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Agricultural	-	7.720	2.133	(3.906)	(10.425)
Residential	-	89.776	81.101	71.627	61.305
Commercial	-	20.447	15.490	10.122	4.318
Timber	-	3.220	3.188	3.156	3.125
Total	-	121.163	101.912	80.999	58.324

15. The state mills were then applied to the change in taxable value to determine the estimated fiscal impact to the state. All property is levied for the university mills (6) and the school equalization mills (95). Property in Silver-Bow, Cascade, Yellowstone, Missoula, and Lewis & Clark are levied additional Vo-Tech mills (1.5). The following table shows the estimated fiscal impact to the state of SB 157.

Estimated Change in State Property Tax Revenue Under SB 157 as Introduced				
	FY 2016	FY 2017	FY 2018	FY 2019
General Fund	\$11.591	\$9.751	\$7.752	\$5.585
University Mills	\$0.727	\$0.611	\$0.486	\$0.350
Total	\$12.32	\$10.36	\$8.24	\$5.94

16. SB 157 makes changes to the Property Tax Assistance (PTAP) and the Montana Disabled Veterans (MDV) property tax relief programs. Under current law, income brackets are used to determine the amount of property tax assistance for the PTAP and MDV programs. Current law sets a \$100,000 taxable market value limit for PTAP program benefits. Additionally, current law requires the PTAP and MDV programs adjust

the income thresholds each year based on the U.S. Bureau of Economic Analysis's personal consumption expenditure (PCE) price index.

17. Under the provisions in SB 157, the income brackets used to determine the amount of PTAP or MDV assistance are eliminated and replaced with a formula based on income to avoid large changes in assistance caused by moving between brackets between years simply due to small changes in income. The proposed formula would be adjusted for annual inflation by rule. SB 157 replaces the \$100,000 taxable market value limit in the PTAP program with a \$170,000 appraised value limit. The PCE index is replaced by the consumer price index.
18. The impact of SB 157 changes on PTAP and MDV were evaluated using a sample of TY 2014 program applications. Program beneficiaries would receive a small net increase in benefits. The general fund property tax revenue would decline by approximately \$90,500 per year and university state special revenue would decline by \$5,665 per year.
19. SB 157 eliminates the Extended Property Tax Assistance Program (EPTAP). To qualify under current law, a property owner must have an increase in value of more than 25% as a result of reappraisal and have an increase in tax liability of more than \$250.
20. For the recently completed reappraisal, it is estimated that very few properties increased by more than 25%. A majority of the properties that did see an increase of more than 25% are located in areas with relatively low mill levies. Leading to property tax increases that are less than \$250. The estimated impact of eliminating EPTAP is expected to be negligible
21. The department will need to change processes and will have workload increases with the acceleration from a six-year to a two-year full valuation cycle. The sales, and income and expense valuation work will need to be kept current with less lag than in the past. Market and income models can only be updated once the sales and valuation work is completed each cycle. Meanwhile, all yearly work is still required as tracking new construction, ownership changes, land splits, certification of value process continue cycle. Implementation of SB 157 is therefore expected to require an additional 11.00 FTE in the Property Assessment Division (PAD) and 1.00 FTE in the Business and Income Tax Division (BIT) FTE. Expenses are estimated to be approximately \$480,000 per fiscal year for personal services, approximately \$301,000 per fiscal year for operating expenses, approximately \$39,000 in one-time operating costs, and approximately \$209,000 in benefits per fiscal year. It is assumed that these costs will be funded from the general fund.

Office of Public Instruction

22. Local school district mills would shift to provide the necessary revenue. The amount each taxpayer pays will change based on the change in value of property with respect to the district average but total local school taxes paid would essentially match present law.
23. The changes HB 167 proposed for property tax creates a net GTB savings for the state. The general fund savings are outlined below:

Changes to Guaranteed Tax Base Aid under SB 157 as Introduced			
FY 2016	FY 2017	FY 2018	FY 2019
(\$1,183,239)	(\$869,366)	(\$29,424)	(\$265)

24. Changes to property tax values may have an impact on the Natural Resource Development (NRD) K-12 Payment. However, the changes in this bill are not expected to cause a significant fiscal effect to the NRD payments.
25. Revenue received from county school levies for all district funds will not change due to this bill as tax shifting occurs.
26. Countywide retirement GTB will result in a general fund cost of approximately \$400,000 in FY 2016, and approximately \$1,200,000 per year in subsequent years. This is based on the assumption that 25% of local school retirement costs are paid by the state and FY 2015 county retirement levies were \$144.2 million.

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<u>Fiscal Impact:</u>				
Department of Revenue				
FTE	12.00	12.00	12.00	12.00
<u>Expenditures:</u>				
Department of Revenue				
Personal Services	\$681,036	\$681,083	\$692,151	\$703,442
Operating Expenses	\$290,620	\$308,248	\$307,160	\$297,184
Office of Public Instruction				
Local Assistance (GTB)	(\$1,183,239)	(\$869,366)	(\$29,424)	(\$265)
Local Assistance Retirement GTB	\$432,592	\$1,189,627	\$1,189,627	\$1,189,627
TOTAL Expenditures	<u>\$221,009</u>	<u>\$1,309,592</u>	<u>\$2,159,514</u>	<u>\$2,189,988</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	<u>\$221,009</u>	<u>\$1,309,592</u>	<u>\$2,159,514</u>	<u>\$2,189,988</u>
TOTAL Funding of Exp.	<u>\$221,009</u>	<u>\$1,309,592</u>	<u>\$2,159,514</u>	<u>\$2,189,988</u>
Department of Revenue				
<u>Revenues:</u>				
General Fund (01)	\$11,499,500	\$9,841,500	\$7,661,500	\$5,494,500
State Special Revenue (02)	<u>\$721,335</u>	<u>\$605,335</u>	<u>\$480,335</u>	<u>\$324,335</u>
TOTAL Revenues	<u>\$12,220,835</u>	<u>\$10,446,835</u>	<u>\$8,141,835</u>	<u>\$5,818,835</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$11,278,491	\$8,531,908	\$5,501,986	\$3,304,512
State Special Revenue (02)	\$721,335	\$605,335	\$480,335	\$324,335

Effect on County or Other Local Revenues or Expenditures:**Department of Revenue**

1. Local governments will see the same decreases from current law taxable value as the state, however, since local government mill levies are set on current year taxable value and revenue is governed by 15-10-420, MCA, local mill levies will adjust to generate the required property tax revenue.

Office of Public Instruction

2. Local property taxes to support the school district BASE budgets may increase by approximately \$1,175,657 in FY 2016, \$870,806 in FY 2017, \$31,290 in FY 2018, and a negligible amount in FY 2019.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date